

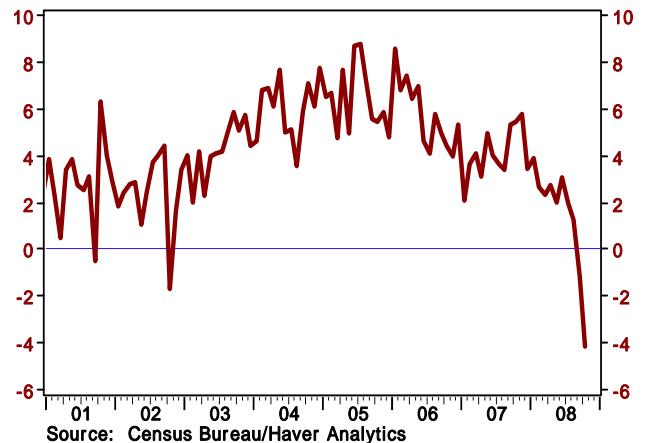
# OCTOBER RETAIL SALES

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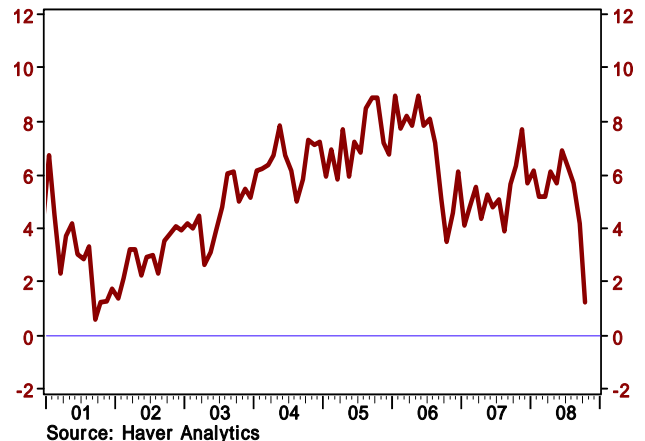
- Retail sales declined 2.8% in October versus a consensus expected -2.1%. Retail sales excluding autos declined 2.2% versus a consensus expected -1.2%. Retail sales are down 4.1% in the past year, but up 1.0% excluding autos.
- The weakest components of sales in October were motor vehicles/parts and gas station sales. Most other major components of sales were also down.
- Sales excluding autos, building materials, and gas were down 0.5% in October, but up 1.3% versus last year.

**Implications:** The risk aversion hysteria gripping the US is clearly affecting consumers. Overall retail sales fell 2.8% in October, the steepest decline in more than 20 years. Excluding autos, the decline was 2.2% the steepest on record (going back to 1967). However, the drop ex-autos was mostly due to plummeting gas prices. “Core” sales, which exclude autos, building materials, and gas, fell 0.5%. Not good news, but a smaller decline than in the previous two months. We expect the October drop in total retail sales will be the worst month in the recession, consistent with our view that the recovery will be a “V,” with positive growth by the second quarter of 2009. In other news this morning, October import prices dropped 4.7% while export prices went down 1.9%, the largest declines on record. Prices were not just driven by oil and food. Import prices ex-petroleum declined 0.9% while export prices ex-agriculture fell 1.2% (another record). Expect large declines reported next week for both producer prices (Tuesday) and consumer prices (Wednesday), with further reductions in the month ahead. However, inflation is hibernating, not dead. All the liquidity being pumped into the economy by the Fed will cause a revival of inflation later next year. Additional data on the economy released this morning show business inventories fell 0.2% in September. Putting all this data into our analysis, we estimate that overall real GDP fell at a 0.5% annual rate in the third quarter versus the government’s original estimate of -0.3%.

Retail Sales & Food Services  
% Change - Year to Year



Retail Sales & Food Services EX: Autos & Building Materials  
% Change - Year to Year



<b>Retail Sales</b> <i>All Data Seasonally Adjusted</i>	<b>Oct-08</b>	<b>Sep-08</b>	<b>Aug-08</b>	<b>3-mo % Ch. annualized</b>	<b>6-mo % Ch. annualized</b>	<b>Yr to Yr % Change</b>
<b>Retail Sales and Food Services</b>	<b>-2.8%</b>	<b>-1.3%</b>	<b>-0.7%</b>	<b>-17.5%</b>	<b>-8.8%</b>	<b>-4.1%</b>
<b>Ex Autos</b>	<b>-2.2%</b>	<b>-0.5%</b>	<b>-1.1%</b>	<b>-14.5%</b>	<b>-3.7%</b>	<b>1.0%</b>
<b>Ex Autos and Building Materials</b>	<b>-2.4%</b>	<b>-0.6%</b>	<b>-1.0%</b>	<b>-14.8%</b>	<b>-4.0%</b>	<b>1.2%</b>
<b>Ex Autos, Building Materials and Gasoline</b>	<b>-0.5%</b>	<b>-0.6%</b>	<b>-0.6%</b>	<b>-6.5%</b>	<b>-1.0%</b>	<b>1.3%</b>
<b>Autos</b>	<b>-5.5%</b>	<b>-4.8%</b>	<b>1.4%</b>	<b>-30.7%</b>	<b>-28.9%</b>	<b>-23.4%</b>
<b>Building Materials</b>	<b>-0.4%</b>	<b>-0.3%</b>	<b>-2.0%</b>	<b>-10.6%</b>	<b>-1.2%</b>	<b>-1.5%</b>
<b>Gasoline</b>	<b>-12.7%</b>	<b>-0.4%</b>	<b>-3.0%</b>	<b>-49.3%</b>	<b>-19.1%</b>	<b>0.4%</b>

Source: Bureau of Census

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